

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0457-01
Bill No.: HB 243
Subject: Business and Commerce; Corporations; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: March 5, 2013

Bill Summary: This proposal would allow small businesses to claim any state tax credit, deduction, and exemption from tax that corporations are allowed to claim.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$143,054 to Unknown)	(\$107,727 to Unknown)	(\$108,851 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$143,054 to Unknown)	(\$107,727 to Unknown)	(\$108,851 to Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 FTE

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 135.1624, RSMo. - Small business tax benefits:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials note this proposal would allow any small business to claim any state tax preference provided to any corporation. This proposal would reduce General and Total State Revenues by an unknown amount; BAP officials assume this could exceed \$10 million. In addition, BAP officials assume this proposal could impact economic activity, but cannot estimate the potential for induced revenues.

Officials from the **Department of Economic Development - Division of Business and Community Services (DED)** assume this proposal would allow small businesses to claim all state tax credits, deductions and exemptions claimed by corporations. DED officials noted that DED administers several tax credit programs for which small businesses may be eligible. DED officials assume there would be an unknown fiscal impact as a result of the proposal, since it may increase the utilization of tax credit programs.

Oversight assumes this proposal could increase the utilization of tax credits, deductions, and tax exemptions by small businesses and for fiscal note purposes, will indicate an impact from \$0 (no increase in the use of business tax benefits) to an unknown negative impact (an increase in the use of business tax benefits) for the General Revenue Fund.

Officials from the **Department of Revenue (DOR)** assume this proposal would expand tax credits, reductions and exemptions for small businesses. The proposal would define the term "small business" to mean any business in this state with an annual Missouri adjusted gross income of no more than five hundred thousand dollars.

Beginning January 1, 2014, any small business would be allowed to claim tax credits, deductions, and exemptions that corporations may claim under state law. The small businesses would be eligible for such credits, deductions, and exemptions in direct proportion to the average annual Missouri adjusted gross income of corporations reported in each tax year divided by three.

The Department of Revenue may create rules to implement the provisions of this section. The program sunsets December thirty-first, six years after the effective date of this section unless it is reauthorized by the General Assembly.

ASSUMPTION (continued)

Fiscal impact

DOR officials stated that any additional tax credit or the expansion of an existing tax credit program would create an unknown, negative impact on Total State Revenue.

Administrative impact

DOR officials assume DOR and OA - ITSD (DOR) would need to make programming changes to various tax systems. In addition, DOR officials stated that Collections & Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually on the delinquent tax line, with CARES equipment and license; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually on the non-delinquent tax line with CARES equipment and license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 contacts annually to the field offices, with CARES equipment and license.

The DOR response included three additional employees; the total cost including salaries, equipment, and expense was \$126,121 for FY 2014, \$123,133 for FY 2015, and \$124,436 for FY 2016.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$6,000 per additional employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$27,266, based on 1008 hours of programming to make changes to DOR systems.

Oversight will use the DOR estimate of IT cost.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** noted this proposal would require “certain small businesses to be eligible to claim any state tax credit, deduction, and other exemption from tax that specified corporations are allowed to claim.” EPARC officials stated they were not able to determine whether the proposal would have an impact on the General Revenue Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Small business tax benefits			
Section 135.1624			
Salaries	(\$57,840)	(\$69,408)	(\$70,102)
Benefits	(\$29,351)	(\$35,221)	(\$35,573)
Computer programming	(\$27,266)	\$0	\$0
Equipment and expense	(\$28,597)	(\$3,098)	(\$3,176)
Total cost	(\$143,054)	(\$107,727)	(\$108,851)
FTE change - DOR	3 FTE	3 FTE	3 FTE
<u>Revenue reduction - DOR</u>			
Small business tax benefits	\$0 to	\$0 to	\$0 to
Section 135.1624	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$143,054 to <u>Unknown</u>)	(\$107,727 to <u>Unknown</u>)	(\$108,851 to <u>Unknown</u>)
Estimated net FTE effect on General Revenue Fund	3 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which qualify for additional tax credits, deductions or exemptions.

FISCAL DESCRIPTION

This proposal would make a Missouri small business with no more than \$500,000 in Missouri adjusted gross income eligible to claim any state tax credit, tax deduction, and exemption from tax allowed to be claimed by a corporation in direct proportion to the average annual Missouri adjusted gross income of corporations reported in each tax year divided by three.

The provisions of the proposal would bill expire on December 31, six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the Attorney General
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Division of Business and Community Services
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



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